HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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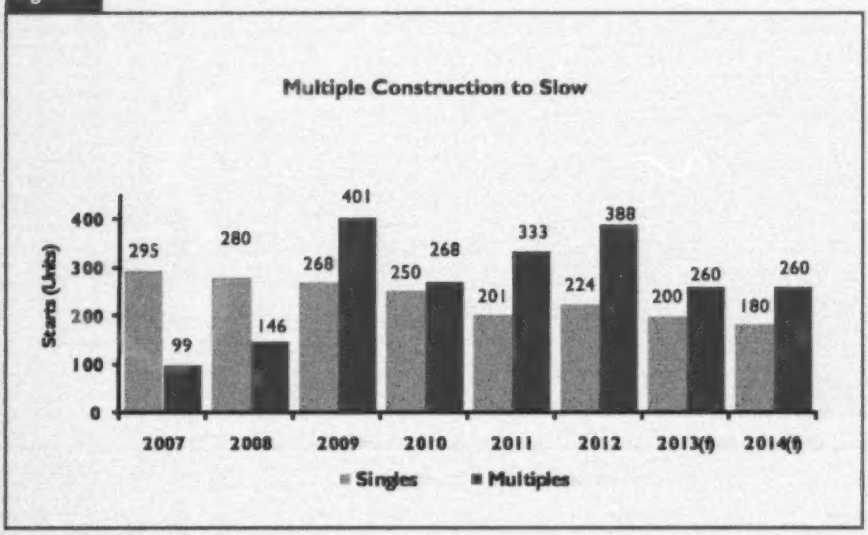
Housing Demand to Moderate

Economic growth in Prince Edward Island is expected to be subdued over the next two years as reductions in both public sector employment and spending will have a negative effect on the local economy. In the housing market, it is expected that activity will decline due to the decreased demand, particularly as international migration to the province slows.

In 2012, employment in the Capital region reached a record level, with over 35,000 people employed. A 6.9 per cent increase in employment in the first quarter of 2013 resulted in the highest level on record for that period. Most of the employment growth in the first quarter was full-time, and centered in the service

Figure 1



Source and Forecast: CMHC

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Figure 2

Source: PEI Real Estate Board, CMHC Forecast

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and construction sectors. As the year progresses, this increase is not expected to remain at the current level. The forecast for employment over the next two years calls for gains of less than one per cent in each year.

The unemployment rate reached 11.3 per cent in 2011, before declining a full percentage point to 10.3 per cent in 2012. During the first quarter of 2013, the labour force also posted large gains resulting in the unemployment rate remaining steady at 10.5 per cent 2013. It is expected that the unemployment rate will remain above 10 per cent during the forecast period.

Migration to the Capital region has been a positive factor for housing over the past six years but expectations point to a slowdown in 2013. Starting in 2006, the pattern of migration began to change as the province's international immigration initiative began attracting people. Before 2006, the Charlottetown area attracted over 70 per cent of new residents from elsewhere in the province, due to the greater employment prospects. However, since 2006 there has been a steady and increasing inflow of people from international locations, culminating in a record level of almost 1,800 people in 2011. Results for 2013 are expected to be lower than last year's level. The recent growth, however, has primarily benefitted the capital region as the majority of people are settling in this area. This trend also provided support to the local housing market, and specifically the rental market. However, in the coming years the new version of the program is not expected to attract as many new migrants as the original.

While the area has been able to draw international immigration, there is still a net loss of people to the other areas of Canada. The draw of the West is neither new nor unexpected in the Maritime Provinces, as residents have been moving westward in search of employment for generations. While employment opportunities in the West decreased during the economic downturn and people returned, this trend has once again reversed with the resurgence in the price of oil. As such, it is expected that out-migration, especially among the 18-24 year old age category, will increase over the forecast period as people are attracted westward by employment opportunities and higher wages.

Mortgage Rates to see Modest and Gradual Increases, but will Remain Low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases

in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

MLS® Sales to Decline

The ten year annual average of residential MLS® sales in the Charlottetown area is 576 units. Over the past ten years annual totals have been remarkably close to that figure. In spite of the fact that during this period housing markets across the country have posted significant changes in sales levels, unit sales in the Capital region have stayed within a fairly tight range.

Demand for resale homes is expected to decline over the forecast period (2013-2014) as employment and household growth are expected to be muted. MLS® sales are expected to be 500 units this year and next.

The average sales price will increase again this year and next, though at a much smaller pace than seen in recent years due to reduced demand. Also, with new listings remaining near record high levels, there are ample choices for potential home buyers. This amount of choice reduces any sense of urgency that buyers may feel and contributes to slower price growth. A price decline is not expected due to the fact that houses in the newer subdivisions continue to remain popular, and that these homes are priced well above the market average. The MLS® average sale price is expected to come in at $205,400 this year, and $206,000 in 2014.

In spite of the fact that higher priced sub-markets tend to drive up the average price, almost 70 per cent of MLS® sales in the Charlottetown CA are under $200,000. Sales of existing homes which are over $250,000 make up less than 16 per cent of total sales. This indicates that a significant portion of the market is priced competitively for first-time home buyers.

Apartment Construction to Decline

New home construction in the Charlottetown region will decrease by almost 25 per cent this year primarily due to declines in multiple starts and particularly to declines in apartment construction. The forecast for 2013 will see multiple unit starts decrease to 260 units compared to the 388 units started last year.

During the past four years, the combination of near record low interest rates and vacancy rates, in addition to strong in-migration and employment resulted in local developers building an above-average number of new rental units. However, the sharp increase in new supply has resulted in a higher vacancy rate which is expected to trend upwards again in 2013. This fact alone will likely cause developers to take a wait and see approach before starting new projects. This will result in fewer rental starts in both 2013 and 2014.

Single-detached starts in the Charlottetown area have been slowly trending down since 2004. Expectations for the next two years point toward a continuation of this trend, with 200 units in 2013 and 180 units in 2014. The trend toward larger, more elaborate homes has pushed average new home prices up significantly, but this is mostly driven by specific sub-markets. The fact remains that about 50 per cent of new homes in 2012 were below the $250,000 price range. As demand continues to decline and the trend towards higher-priced homes slows, average prices will climb at a slower pace than seen in recent years.

Vacancy Rates on the Rise

Vacancy rates rose last year as supply increased as a large number of new units were added to the local market and demand decreased as in-migration slowed. It is expected that this trend will continue into 2013 and 2014, as the large number of new rental units started in 2012 will soon be available for rent in the local market. As such, expect the vacancy rate to reach 6.5 per cent this year before rising again to 7.0 per cent in 2014.

Average rents will increase as a result of the respective five and three per cent allowable rent increases for heated and unheated units approved by the Island Regulatory and Appeals Commission for 2013. The large number of new units entering the market with well above average rents will also push up the average rents. Two bedroom average rents are expected to be $830 this year and $850 in 2014.

Forecast Summary Charlottetown CA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	250	201	224	200	-10.7	180	-10.0
Multiples	268	333	388	260	-33.0	260	0.0
Starts - Total	518	534	612	460	-24.8	440	-4.3
Average Price ($):							
Single-Detached	235,703	239,840	272,844	250,000	-8.4	255,000	2.0
Median Price ($):							
Single-Detached	220,000	240,000	250,000	242,500	-3.0	247,350	2.0
New Housing Price Index (% chg.)	-1.6	1.8	0.2	0.5	-	1.0	-
Resale Market							
MLS® Sales	611	546	575	500	-13.0	500	0.0
MLS® New Listings	786	875	924	850	-8.0	800	-5.9
MLS® Average Price ($)	179,813	199,580	204,319	205,400	0.5	206,000	0.3
Rental Market							
October Vacancy Rate (%)	2.3	3.3	5.7	6.5	0.8	7.0	0.5
Two-bedroom Average Rent (October) ($)	731	761	803	830	-	850	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level (,000)	33,925	34,625	35,250	34,600	-1.8	34,900	0.9
Employment Growth (%)	4.9	2.1	1.8	1.9	-	0.9	-
Unemployment Rate (%)	7.9	8.3	8.3	8.0	-	8.2	-
Net Migration (P.E.I.)	2,531	1,169	3	900	**	700	-22.2

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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